

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 AGR-05 /055 W

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R 091659Z APR 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8628

INFO ALL EC CAPITALS 519

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC WHEAT SITUATION

REF: EC BRUSSELS 02903

1. THE EC COMMISSION HAS ANNOUNCED IMPLEMENTATION OF "INTERVENTION B" (PREVENTIVE INTERVENTION) FOR WHEAT (SEE REFTEL), FOR WHICH IT AGREED TO GRANT A DAILY STORAGE SUBSIDY OF 0.035 U.A. PER METRIC TON FOR WHEAT KEPT OFF THE MARKET DURING THE PERIOD APRIL 15, 1975 - FEBRUARY 29, 1976. THE SUBSIDIES WILL BE OFFERED FOR A TOTAL QUANTITY OF 1,185,000 METRIC TONS OF WHEAT. AS OPPOSED TO INTERVENTION "A", THIS TYPE OF INTERVENTION DOES NOT REQUIRE INTERVENTION AGENCIES TO PURCHASE SUCH WHEAT, SO THE ONLY COST TO THE COMMUNITY IS THE STORAGE SUBSIDY.

2. THE WITHDRAWAL FROM THE WHEAT MARKET OF ONE PLUS MILLION TONS IS INTENDED TO SHORE UP PRICES AND THEREBY PREVENT LARGE-SCALE COSTLY PURCHASES BY INTERVENTION AGENCIES. THE COMMISSION CONSIDERS STORAGE SUBSIDIES GENERALLY TO BE A LESS EXPENSIVE MEANS OF INTERVENTION THAN OUTRIGHT PURCHASES BY INTERVENTION AGENCIES. WE UNDERSTAND THAT MUCH OF THE WHEAT WHICH WILL

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AGENCIES. WE UNDERSTAND THAT MUCH OF THE WHEAT WHICH WILL

BENEFIT FROM THE SUBSIDIES IS SO-CALLED FEEDER (FEED) WHEAT
WHOSE PROTEIN AND GLUTEN QUALITIES MAKE IT UNSUITABLE
FOR USE BY THE BAKING INDUSTRY.

3. THE NEED FOR PREVENTIVE INTERVENTION AROSE BECAUSE OF SLUGGISH
DEMAND AND LARGE PRIVATE STOCKS WEIGHING ON MARKET PRICES.
PRODUCERS HAVE TENDED TO BLAME THE COMMISSION FOR THE MARKET
MALAISE WHICH THEY SAY RESULTED IN LARGE PART FROM (A) THE
COMMISSION BOWING TO US REQUESTS THAT EC EXPORT BE KEPT ON THE
DOMESTIC MARKET TO Dampen DEMAND FOR US CORN AND (B) THE COMMISSION'S
"LATE REACTION (SUSPENSION OF LEVY PRE-FIXING) TO THE INFLUX
OF THIRD COUNTRY CORN FOR WHICH A ZERO OR SMALL IMPORT LEVY
WAS FIXED IN ADVANCE FOR 60 DAYS. THE COMMISSION SUSPENDED LEVY
PRE-FIXING FOR CORN ON FEBRUARY 21 WHICH WAS AFTER IMPORT
LICENSES HAD ALREADY BEEN ISSUED FOR 8.4 MILLION TONS FOR THE 1974/75
MARKETING YEAR. EC PRODUCERS SAY THAT THIS THIRD COUNTRY CORN
IMPORTED WITH A LOW OR ZERO LEVY UNDERCUT EC SUPPORT PRICES,
AND SUPPLANTED WHEAT IN FEED RATIONS. THEY ARE REQUESTING THE
COMMISSION TO STRONGLY ENCOURAGE EC GRAIN AND FLOUR EXPORTS
BY GRANTING "ADEQUATE" EXPORT SUBSIDIES. THERE ARE ALSO REQUESTS
FOR RE-INTRODUCTION OF A WHEAT DENATURING PREMIUM.

4. COMMISSION OFFICIALS IN THE AGRICULTURAL DIRECTORATE ARE
QUICK TO ADMIT THAT THE CURRENT WHEAT SITUATION IS "NOT GOOD".
THEY EXPECT THE PREVENTIVE INTERVENTION TO HELP SOME. ALSO,
ALL IMPORT LICENSES FOR CORN FOR WHICH THE LEVY HAD BEEN
PRE-FIXED EXPIRE THIS MONTH WHICH MAY HAVE A POSITIVE EFFECT
ON THE WHEAT MARKET. HOWEVER, THEY STATE THERE ARE STILL 2 TO
2.5 MILLION TONS OF WHEAT AVAILABLE FOR EXPORT FOR WHICH
THERE ARE AT PRESENT NO BUYERS, AND THEY ARE CONCERNED OVER
DISPOSAL OF THAT QUANTITY. THE COMMISSION APPEARS RELUCTANT
TO EMBARK ON AN AGGRESSIVE EXPORT SUBSIDY PROGRAM, AT LEAST
UNTIL THE PROSPECTIVE 1975/76 SUPPLY SITUATION BECOMES MORE
CLEAR. ALSO, THE COMMISSION CONTINUES TO SHY AWAY FROM DE-
NATURING PREMIUMS. THESE ATTITUDES, HOWEVER, COULD CHANGE QUICKLY,
PARTICULARLY IF LIQUIDATION OF STOCKS DOES NOT PROGRESS AS THE
END OF THE MARKETING YEAR APPROACHES.

5. ILLINOIS HAS APPARENTLY TRIED TO WARD OFF CRITICISM OF
COMMISSION "INACTION" BY PROMOTING LONG TERM EXPORT CONTRACTS
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AND SCURRYING OFF TO MEDITERRANEAN COUNTRIES IN SEARCH OF TAKERS.
OFFICIALS IN THE COMMISSION'S GRAIN DIVISION ARE SOMEWHAT PER-
PLEXED BY THESE EFFORTS. THEY SEEM TO HAVE DOUBTS ABOUT THE VALUE
OF LONG-TERM CONTRACTS AND WONDER HOW AND UNDER WHAT TERMS
THEY WOULD BE IMPLEMENTED. THEY STATE THAT ALGERIA, FOR EXAMPLE,
IS PRIMARILY INTERESTED IN SUPPLY ASSURANCES FOR DURUM. THE
EC IS A NET IMPORTER OF DURUM AND HAS HAD AN EMBARGO ON EXPORTS
SINCE AUGUST 1973. GREENWALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INTERVENTION, WHEAT, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ECBRU03156
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750124-0258
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750468/aaaacklp.tel
Line Count: 115
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 EC BRUSSELS 02903
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2003 by BoyleJA>; APPROVED <21 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC WHEAT SITUATION
TAGS: EAGR, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006